

FISCAL MEMORANDUM

SB 611 – HB 653

May 15, 2008

SUMMARY OF AMENDMENT (018729): Deletes the language of the original bill; makes multiple changes to the lottery scholarship program; reduces the grade point average requirement for HOPE scholarship retention to 2.75; changes the termination event for receiving HOPE scholarships from 120 semester hours to five full years from the date of the student's initial enrollment, or the student has earned a baccalaureate degree; states the legislative intent to use \$6,800,000 per year from the Lottery for Education Account to fund annual Tennessee Student Assistance Awards; authorizes any funds in the Lottery for Education Account in excess of \$10,000,000 on July 1, 2008 to be invested for the purpose of earning interest to fund the provisions of the bill as amended; states the legislative intent to use any additional net lottery proceeds to fund the Helping Heroes Scholarship Program, if such funds are available.

FISCAL IMPACT OF ORIGINAL BILL:

Other Fiscal Impact – Increases the expenditure of lottery proceeds earmarked for scholarships and grants by \$34,603,200 in FY07-08 and by \$38,062,000 in FY08-09.

There is included in the Governor's FY2007-08 Recommended Budget the amount of \$9,300,000 from recurring lottery for education revenues for the increase in the base HOPE Scholars award levels. The amounts will increase from \$3,800 to \$4,000 at four-year schools and from \$1,900 to \$2,000 at two-year schools. Other awards, which are based on the HOPE award levels, will increase accordingly.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Other Fiscal Impact - \$6,800,000 of non-recurring lottery funds (from the Lottery for Education Account) will be utilized to fund Tennessee Student Assistance Awards for FY08-09. Increases the expenditure of recurring lottery proceeds earmarked for scholarships and grants by \$26,690,000 for FY08-09. Therefore, the total increase of expenditures from lottery proceeds (from both non-recurring and recurring lottery revenue) is estimated to be \$33,490,000 for FY08-09.

The recurring increase of expenditures beginning in FY09-10 is estimated to be \$33,241,000 per year. This amount includes \$6,800,000 of annual Tennessee Student Assistance Awards, which will be funded by interest earnings generated from the Lottery for Education Account. Interest earnings are also expected to fund approximately \$11,875,000 of the bill as amended. An additional \$14,566,000 will be required from recurring lottery revenue each year to fund the provisions of this act. If recurring lottery revenue is not sufficient for funding all of the provisions of this bill as amended in FY09-10, then any shortfall of such revenue will result in a reduced number of Helping Heroes Scholarships.

Assumptions applied to amendment:

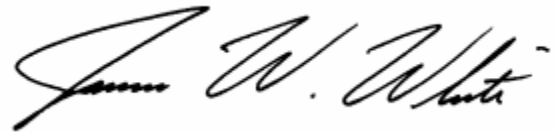
- Excess recurring net lottery proceeds are estimated to be \$27,100,000 for FY08-09. This amount assumes \$278,500,000 in net lottery proceeds for FY08-09 less \$238,000,000 to fund the existing lottery scholarship program, \$4,100,000 for administrative costs, \$25,000,000 for existing Pre-K programs, plus approximately \$15,700,000 in interest earnings ($[\$278,500,000 - \$238,000,000 - \$4,100,000 - \$25,000,000] + \$15,700,000 = \$27,100,000$).
- Reducing grade point average requirement to 2.75 – first-year costs are estimated to be \$17,500,000 (4,164 students); second-year costs are estimated to be \$17,850,000 (4,247 students).
- Changing the HOPE continuation requirement from 120 semester hours to five years or degree – first-year costs are estimated to be \$2,880,000 (720 students); second-year costs are estimated to be \$2,880,000 (720 students).
- Helping Heroes Scholarship Program – first-year costs are estimated to be \$6,310,000; second-year costs were estimated to be \$5,711,000.
- Given the legislative intent stated in Section 10 of this amendment, it is assumed that \$6,800,000 from the Lottery for Education Account will be utilized for Tennessee Student Assistance Awards (TSAA) in FY08-09.
- The increase of expenditures from recurring lottery proceeds is estimated to be \$26,690,000 for FY08-09. The increase of expenditures from non-recurring lottery proceeds (from the Lottery for Education Account) is estimated to be \$6,800,000 for FY08-09. Therefore, the total increase of expenditures from lottery proceeds (recurring and non-recurring) is estimated to be \$33,490,000 for FY08-09.
- Based on current lottery revenue and expenditure estimates, the remaining balance in the Lottery for Education Account (net of the \$10,000,000 specified in Section 11 of the amendment) is estimated to

exceed \$415,000,000. Such balance is assumed to be invested long-term at a rate no less than four and one-half percent per year.

- Annual interest earnings are estimated to exceed \$18,675,000 per year ($\$415,000,000 \times 4.5\% = \$18,675,000$).
- The total increase of recurring costs for the lottery scholarship program as proposed for FY09-10 and subsequent fiscal years is estimated to be \$33,241,000 per year. This amount includes \$6,800,000 for annual Tennessee Student Assistance Awards, which are to be funded with interest earnings generated from the Lottery for Education Account. The remaining annual interest earnings (estimated to be \$11,875,000 per year) will fund other provisions of the bill as amended. An additional \$14,566,000 will be required from recurring lottery revenue to fund all provisions of the act. If recurring lottery revenue is not sufficient for funding all of the provisions of this bill as amended for FY09-10, then any shortfall of such revenue will result in a reduced number of Helping Heroes Scholarships.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

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